VFW Wants Full Life Insurance Disclosure

"Life insurance companies profiting off our war dead struck an emotional nerve at every level"

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"News reports about life insurance companies profiting off our war dead struck an emotional nerve at every level," said Thomas J. Tradewell Sr., national commander of the 2.1 million-member Veterans of Foreign Wars of the U.S. and its Auxiliaries.

"It may be a legal industry practice, but learning that a company is earning more interest than what they pay out to surviving families just reeks of corporate greed and irresponsibility."

According to Bloomberg News, if beneficiaries do not request a lump sum payment or direct the money elsewhere, insurers are holding the funds in corporate accounts that provide ridiculously low interest rates, plus they are giving misleading guarantees about the safety of the funds.

For example, Bloomberg reported that Prudential in 2008 paid survivors 1 percent interest on their accounts, while the company itself earned a 4.8-percent return on the same account. Prudential is the nation's second-largest life insurer and manages the Servicemember and Veterans Group Life Insurance programs for 6 million military and military retirees. MetLife, the country's largest life insurer, provides insurance for all nonmilitary federal employees.

Prudential defended their practice by saying its Alliance Account "does not in any way take money from beneficiaries," and that beneficiaries can withdraw the entire amount, plus interest, at anytime without penalty. Prudential admits the account is not FDIC insured — a fact disclosed in their material — but alluding to State Guaranty Funds protections is misleading. State Guaranty Funds are nongovernment safety nets, similar to insurance to protect the policyholders of insurance companies that might fail. Only a fraction of the State Guaranty Funds provided in all 50 states and the District of Columbia would cover the

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top SGLI or VGLI amount of $400,000.

"This entire issue is about full disclosure," said Tradewell, a combat-wounded Vietnam veteran from Sussex, Wis.

"I know that the interest rate my savings account is earning is far less than what my bank earns by virtue of them holding my money. The difference is I know that, the surviving families do not. They think their money is safe and earning a good rate of return, where in fact their money isn't fully protected and only the insurance company is earning the profit, which just isn't right."

In the aftermath of the Bloomberg article, the Department of Veterans Affairs, who oversees the SGLI and VGLI insurance programs, announced last week it would investigate the holding practice. Rep. Deborah Halvorson (D-Ill.), the step-mother of an Army Special Forces soldier who was wounded in Afghanistan, introduced legislation to require companies to tell beneficiaries how their money will be invested, and how much the insurer stands to make from holding the funds. And New York Attorney General Andrew Cuomo announced an investigation of the practice, which Bloomberg reported has allowed more than 100 insurance carriers to retain and earn investment income on $28 billion owed to life insurance beneficiaries around the country. MetLife is based in New York.